

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY FOR)	CASE NO. IPC-E-04-29
AUTHORITY TO REVISE THE ENERGY)	
EFFICIENCY RIDER, TARIFF SCHEDULE)	ORDER NO. 29784
91)	

On December 6, 2004, Idaho Power Company filed an Application requesting authorization to increase the funds generated by the Energy Efficiency Rider and used to defray the costs of implementing energy conservation measures. More specifically, Idaho Power proposed to increase the Rider surcharge from 0.5% of base revenues to 1.5% of base revenues effective June 1, 2005; and to additionally increase the Rider to 2.4% of base revenues effective June 1, 2007. The Company also proposed that Schedule 19 (industrial) customers and special contract customers be allowed a self-direct option for implementation of specific energy conservation programs. Finally, the Company requested authority to change how the Rider is assessed on customer bills from a cents-per-kilowatt-hour charge to a percentage of base revenue charge.

In Order No. 29673 the Commission issued a Notice of Modified Procedure seeking comments on the Application. Comments were filed by Commission Staff, Snake River Alliance, Northwest Energy Coalition, and approximately 13 customers. Idaho Power filed a brief response.

In this Order the Commission authorizes the Company to collect energy efficiency funds equivalent to 1.5% of base revenues with a cap on residential charges of \$1.75 and a cap on irrigation customers' charges of \$50.00. Additionally, the Commission denies the request to authorize a 2.4% Rider effective on June 1, 2007. Finally, the Commission approves the Company's request to change the method for assessing the Rider and approves the self-directed option for Schedule 19 and special contract customers.

BACKGROUND

Funding of Demand Side Management (DSM) programs with the Energy Efficiency Tariff Rider was initiated by Order No. 29026 and made effective on May 16, 2002. The Rider surcharge was initially set at 0.5% of each customer class's base revenues. It was imposed as a flat \$0.30 per-month charge to residential customers and as a cents-per-kilowatt-hour charge for

all other customer classes. The Rider for irrigation customers was capped at a maximum of \$15.00 per meter. The Rider provided approximately \$2.6 million annually for DSM measures. The Commission also recognized, "that this initial amount of funding may not be adequate to support some programs that could be very beneficial" and stated "this amount may be increased in the future if necessary to take advantage of other cost-effective DSM measures as circumstances warrant." Order No. 29026 at 20-21.

2005 DSM RIDER INCREASE

1. Idaho Power. In order to provide the funding necessary to support continuing and future DSM measures and programs, Idaho Power requested authorization to collect additional funds equivalent to 1.5% of base revenues effective June 1, 2005 and an additional increase of the Rider to 2.4% of base revenues effective June 1, 2007. The Company stated that these progressive increases are and will be necessary to recover the cost of implementing the six DSM programs identified in its 2004 Integrated Resource Plan¹ (IRP), and to cover the costs of the Company's various other DSM programs, administrative costs, research and studies. Additionally, funding is needed over the next four years to allow the Company's continued involvement in the Distribution Efficiency Initiative and the Northwest Energy Efficiency Alliance.

The Company projected that expenditures for DSM programs in 2005 will be \$6.49 million and will increase each year to approximately \$12.82 million in 2009. The Company also anticipated a year-end 2004 balance in the Rider account of \$4.5 million. The Company's proposal is designed to provide sufficient funding for DSM through 2009.

2. Customer Comments. The Commission received written comments from approximately 13 Idaho Power customers. Several customers adamantly opposed any kind of increase to their Idaho Power bill, and viewed this case as just "another" request to increase rates, or "another" way for the Company to make a profit. One commenter said that the programs will not really reduce energy use because there are no laws requiring it, and it will only generate revenue for the Company. Another commenter was concerned that the program was designed for Idaho customers to pay the expenses and promote the conservation of energy in Idaho so that the Company could sell the "saved" energy out of state at higher profit.

¹ The Commission accepted the Company's 2004 IRP in Order No. 29762 issued April 22, 2005.

One customer was opposed to any increase for conservation programs, and stated the only programs that should be pursued are development of wind, solar, local alcohol, and geothermal generation – as well as reduction of administrative salaries and benefits and overhead costs for the Company. Another commenter expressed frustration at being forced to pay for all of the “add-ons” on the utility bills without any choice.

3. Commission Staff. Staff supported the Company’s request to increase its Rider to a level equivalent to 1.5% of its base revenues effective June 1, 2005. Staff also recognized that an additional increase above the 1.5% will likely be necessary within two years to support planned DSM levels identified in the Company’s 2004 IRP. However, Staff does not recommend approving the Company’s request to move to 2.4% in 2007 at this time. Staff is convinced many demand-side energy efficiency and direct load control opportunities are less costly and less risky than many supply-side resources and supports Idaho Power’s increased commitment to providing these opportunities for its customers. Staff further believed the Company’s efforts are best funded through an increase in the Energy Efficiency Rider in a way that allows periodic review and does not impede implementation of these efforts.

Staff believed several adjustments to the Company’s revenue estimates are necessary and found slightly different beginning balance and funding levels. However, Staff noted that the cash flow analyses and projected numbers are merely the projections of revenues based upon estimated total sales, estimated costs for DSM programs that have been selected but are not yet fully developed, and rough estimates of future participation by Idaho Power’s customers. Furthermore, Staff and other parties have advocated that the Company should pursue additional cost-effective DSM programs that were identified in, but ultimately not implemented by the Company in its 2004 IRP. Staff observed that the Northwest Power and Conservation Council’s (NWPCC) Fifth Power Plan suggests that a higher level of cost-effective DSM is available to Idaho Power. Staff noted that Idaho Power has indicated that it will continue to investigate additional DSM opportunities. In short, Staff believed it would be important to re-evaluate necessary Rider levels to assure that the Company has a sufficient Rider balance to pursue additional cost-effective DSM opportunities as they are identified and programs are developed.

Consequently, Staff opposed Idaho Power’s request for increasing the Rider to 2.4% effective June 1, 2007. Instead, Staff recommended the Company file another Application at such time that its DSM programs are more fully developed and customer participation can be

more accurately estimated. Staff will support increasing the Rider for funding cost-effective DSM programs but believes it is premature to speculate at this time exactly what level of funding will be necessary beyond 2006.

Staff estimated that if the Rider is set at 1.5% and DSM costs remain as currently projected, then the Company's total DSM balance will become negative in the fall of 2007 and will continue to decline more than \$300,000 each month. Staff did not believe this scenario should occur. Instead, Staff anticipated that Idaho Power will request a change to the Rider level in 2006 or prior to June 1, 2007.

4. Snake River Alliance and Northwest Energy Coalition Comments. The Snake River Alliance and the Northwest Energy Coalition were very supportive of Idaho Power's Application. In fact, they commented that the proposed increases and the level of DSM program implementation were low and should be increased even more than proposed. Each organization made reference to the Northwest Power and Conservation Council's Fifth Power Plan, and its recommendation that Idaho Power achieve 49 aMW in efficiency savings during the next five-year period. Each organization urged approval of the Company's Application. Although sensitive to the economic impact of increasing rates to accommodate investments in DSM resources, they asserted that DSM resources are cost-effective and will result in lower customer bills and reduced high-cost peak power needs. They also observed that DSM resources are cheaper for Idaho Power to acquire than many other supply side generating resources that would result in large rate increases.

Commission Findings: We join the Northwest Energy Coalition and the Snake River Alliance, as well as Commission Staff, in commending Idaho Power for its efforts in procuring cost-effective energy efficiency programs and measures, and treating DSM as a part of its overall resource portfolio. As recently stated in our IRP Order,

We are pleased to see that Idaho Power's 2004 IRP calls for 124 MW of demand response and energy efficiency programs. Given the continuation of drought conditions in Idaho, we believe that speedy implementation of the DSM and energy efficiency programs are critical to serving Idaho customers. Though we are pleased with the efforts so far, we find that Idaho Power could and should do more to implement conservation. We encourage the Company to actively promote and expand participation in its AC Cycling, Irrigation Peak Clipping, and other cost-effective conservation programs.

Order No. 29762 at 10.

With the above statement in mind, we find that increasing Idaho Power's DSM Rider to 1.5% of base revenues, as adjusted below, is appropriate. Increasing the Rider will provide Idaho Power ample funding to pursue its plans for implementing cost-effective energy efficiency and demand response programs through at least June 1, 2006. Additionally, we find the Company's proposal to make this new Rider level effective as of June 1, 2005, which will coincide with the Company's PCA, to be logical and reasonable.

We further find that two adjustments to the 1.5% Rider are necessary and in the public interest. First, residential DSM charges shall be capped at \$1.75 per month. We note that none of the Company's six current DSM programs² funded by the Rider are directed toward existing residential customers with electric space heating systems. Second, irrigation DSM charges shall be capped at \$50.00 per month. In particular, we are cognizant of the hardships irrigators are facing due to several years of drought. We find that implementing these two caps will moderate the Rider increases for residential and irrigation customers, while providing significant funds to the Company's DSM programs for the next 12 months.

Setting the Rider at 1.5% is a much more equitable and fair allocation of funding contributions across the differing customer classes than the previous flat fee rate design. Those customers that use more electricity will pay a larger contribution through the Rider, but will also benefit more from DSM programs, and are the customers with the most potential for cost-effective energy savings. Additionally, this Rider level provides substantially more DSM dedicated funding for the Company to pursue cost-effective DSM programs and measures while capping the most extreme increases in contribution levels from the highest-usage residential and irrigation consumers.

We remind the Company that our approval of the Rider increase as set forth above should not be misconstrued as a finding that the Company's DSM expenditures were or will be reasonably and prudently incurred and executed. It is premature to make such a determination for expenses that have not yet been incurred. Although we authorize the 2005 increase in Idaho Power's Rider to fund more aggressive and cost-effective DSM programs, we cannot speculate at this time whether the Company will implement and evaluate its programs in a reasonable and

² The four efficiency programs are: new residential construction; new commercial construction; irrigation efficiency; and industrial efficiency. The two direct control programs are the residential air conditioner cycling and the irrigation peak clipping programs.

prudent manner. To our knowledge the Company is proceeding prudently in identifying DSM programs to be pursued and will competently execute them.

Additionally, although we believe there may be opportunities to obtain even more cost-effective DSM than the Company has said it is comfortable pursuing, we cannot at this time determine that it is acting unreasonably by not ramping up DSM more rapidly. However, our approval of the increase in funding is done with the expectation that there will be faster deployment of programs, not a further accumulation of funds. Idaho Power should pursue additional, cost-effective DSM programs as quickly as it is reasonably able to do so.

THE 2007 RIDER

The various DSM programs and projects that Idaho Power intends to fund with the increased Rider are described in Company witness Tatum's testimony and his Exhibits 5-11. Pages 1 and 2 of Exhibit 10 show that by the end of 2009 the selected four efficiency programs and the two direct control programs are estimated to result in a 103 Megawatt reduction to the Company's peak summer demand and an annual savings of 87,165 Megawatt-hours of energy. These estimates do not include the effects of NEEA's efforts or the effects of Idaho Power's small projects, trials, limited rollouts and education efforts. Mr. Tatum stated that all of the IRP-selected DSM programs as well as Idaho Power's participation in NEEA are expected to result in benefits exceeding their costs. The Company stated that it plans a "limited rollout" of both the residential and commercial existing building programs in 2006, even though those programs were not selected in the IRP. The Company proposed a future increase of the Rider to 2.4% of base revenues effective June 1, 2007.

Commission Findings: We deny the Company's proposal to authorize an increase in the Rider to 2.4% in June 2007 at this time. As stated above, increasing the Rider to 1.5% will provide the Company with ample funding to pursue its plans for implementing programs through at least June 1, 2006. We find that a periodic review of the Energy Efficiency Rider is reasonable and in the public interest. The Company should pursue DSM programs that it believes will benefit its customers most, and continue to work with the input of customers, Staff, and the various advisory groups. We are aware that Idaho Power's Energy Efficiency Advisory Group (EEAG) is actively engaged in making suggestions to the Company about its DSM activities and the level of those activities. As DSM programs continue to be implemented and

identified, the Company may file an Application to initiate further review of the Rider funding level on a periodic basis.

CHANGING THE RIDER METHODOLOGY

1. Idaho Power. The Company proposed that the way the Rider is collected be changed from a cents-per-kWh charge to a percentage of base revenue. The Rider funds would be collected by applying the percentage to the base revenue of each customer. This charge would be applied to all bills for retail sales delivered to Idaho customers via the Company's distribution system. A Rider based on the total base revenue recognizes both the capacity and energy utilized by a customer and more equitably recovers the DSM program costs.

The Company does not propose continuation of the flat residential fee nor the cap on irrigation contributions. Given that approximately 83% of the expected DSM-related expenditures through 2009 are for programs selected in the IRP, the Company argued it is appropriate for the cost of the resources to be paid on the basis of consumption just as the costs associated with supply-side resources are recovered. The Company stated that if the Commission determines that a cap is appropriate, then any shortfall in funds should be recovered from all other customers so that the total amount of funding necessary to support the identified level of DSM programs can be achieved.

2. Commission Staff. Staff recommended that the Commission approve the Application's request to apply the Rider to all base revenue charges on a percentage basis. Currently the 0.5% Rider is an approximation that is applied differently among customer classes. All residential customers are charged \$0.30 per month, regardless of energy used. The Rider is applied to irrigation pumping as an energy rate equivalent to 0.5% of base revenue, except that the charge is capped at \$15.00 per month per customer site. For all other customer classes, the Rider is applied as an energy rate equal to 0.5% of the class's base revenue. The Company's Application requested that the Rider be applied uniformly as a percent of each customer's base bill, that includes customer charges, base energy rates, and base demand charges where applicable.

Staff agreed that the Rider should apply on an equal percentage basis to energy and demand charges. Theoretically, Staff did not believe the Rider should apply to monthly customer charges because these charges are based on costs not affected by monthly energy usage or demand and these costs will not be affected by DSM programs. However, because the Rider

would have to be set slightly higher if it did not apply to customer charges and because applying the Rider to the customer charge is relatively insignificant, the Staff agreed with the Company's proposal.

Staff also agreed with the Company that the Rider should remain itemized on a customer's bill. Idaho Power asserted that such itemization makes it easier for the Company to track Rider funds. More importantly, Staff believed such itemization will increase customer awareness of the Rider and the programs it is funding. While itemization on bills will likely result in complaints and inquiries to both the Company and the Commission, Staff believed these communications will provide further opportunity to promote participation in DSM programs.

Commission Findings: We find that the Rider should be applied on a percentage basis to total base revenues for all customers, except for the residential and irrigation caps previously described. We find using a percentage methodology is a more equitable allocation of funding contributions across the differing customer usage levels than the previous flat fees. Additionally, while we understand and agree conceptually with Staff's argument against applying the Rider to monthly customer charges, we also agree that the practical effect of including such charges in the DSM Rider is not significant. Given the administrative complexities involved with removing the customer charge portion and re-adjusting the energy rate and demand charge portions to make up the difference, we find it appropriate to leave the customer charge included in the calculation. Finally, we find it is reasonable to continue itemizing the Energy Efficiency Rider on the monthly bills of customers.

SELF-DIRECTED DSM OPTION

1. Idaho Power. In Order No. 29505 issued in Case No. IPC-E-03-13, the Commission directed the Company to work with its Schedule 19 customers and Staff to develop a conservation program targeted specifically to Schedule 19 customers. As a result, the Company's present Application includes a self-directed DSM option for Schedule 19 and special contract customers.

Company witness Brilz detailed the proposed self-directed option in direct testimony submitted with the Application. Funds assessed through the Rider would be tracked for each customer beginning June 1, 2004 with 100 percent of the funds made available to the customer for implementation of specific DSM programs and projects as of June 1, 2005. Customers will have until January 1, 2008 to utilize the funds in the individual accounts for approved projects.

Any individually tracked funds not utilized for a specific project by January 1, 2008 will be removed from the individual account and pooled with the rest of the Rider funds. Additionally, beginning June 1, 2005, customers will be able to utilize the amount of funding expected to be assessed as of January 1, 2008, allowing for an incentive to be paid to the customer prior to the customer actually paying into the individual account. Customers who choose not to select the self-directed option will be eligible to receive Rider funding for approved projects through the cost-share option that will utilize funds from the overall pool of Rider funds.

Additionally, the parties agreed to revise the energy audit provision to provide up to \$3,000 in Rider funds per year for a high level audit of the customer's facility with no obligation on the part of the customer to implement any measures identified as part of the audit. In addition, the parties agreed to a cost-share provision that allows Rider funds to pay for 50% of the cost of a detailed audit of a project identified in the high level audit, provided the customer is likely to implement the project. Rider funds available for a detailed audit are limited to \$10,000 per customer site once every three years.

2. Commission Staff. Staff supported the self-direction of Rider funds and other proposed changes for Schedule 19 and special contract customers. Although the proposal differed somewhat from the changes suggested in Commission Order Nos. 29505 and 29547, the Company, the Staff and the represented industrial customers all agreed to the changes.

The Application provides Schedule 19 and special contract customers the option of self-directing their DSM contributions for DSM projects located at their facilities. Customers choosing this option will, on June 1, 2005, be able to spend up to three and one-half years worth of their estimated total DSM payments from June 1, 2004 through December 31, 2007. Beginning in 2008, customers choosing the self-directed option will be able to utilize up to three years worth of anticipated DSM payments. The funds must be spent on energy audits and/or DSM projects that meet Idaho Power's test for cost-effectiveness. Unexpended DSM funds not used by customers choosing the self-direct option will revert to the pooled Rider account. For industrial customers who do not choose the self-direct option, several changes are proposed that simplify the process for obtaining incentive payments to perform energy audits and cost-effective DSM projects. It is estimated that the cost-benefit ratio of the industrial DSM programs will increase.

Commission Findings: In Idaho Power's 2003 rate case, we recognized that the Company did not have a conservation program for Schedule 19 customers. We stated, "the Commission would like the Company to develop and present a conservation program targeted specifically at Schedule 19 customers." Order No. 29505 at 63, Order No. 29547 at 6. On reconsideration, we stated, "the Commission deliberately left flexibility in development of the details for the program, asking the Company to work with the Schedule 19 industrial customers to develop a proposal to submit to the Commission." Order No. 29547 at 6. We intended the Company to develop the program in conjunction with the customers and Commission Staff, noting that the program should enable Schedule 19 customers to propose improvements at their own facilities and receive matching funds from the Rider program. *Id.* at 6-7.

We find the proposal for the self-directed DSM option for Schedule 19 and special contract customers to be reasonable and in the public interest. Although the proposal differs somewhat from the suggestions in our prior Orders, we applaud the efforts of the Company, industrial customers and the Staff in coming together as directed and developing this option. Allowing Schedule 19 and the three special contract customers to design DSM projects for their specific facilities will promote energy efficiency.

ORDER

IT IS HEREBY ORDERED that Idaho Power Company's Energy Efficiency Rider be set at 1.5% of base revenues. Furthermore, the maximum amount that may be collected on a residential customer's monthly bill shall be capped at \$1.75, and the maximum amount that may be collected on an irrigation customer's bill shall be capped at \$50.00 (per meter).

IT IS FURTHER ORDERED that the Company's proposal to increase the Rider to 2.4% on June 1, 2007 is denied.

IT IS FURTHER ORDERED that the tariff Rider shall continue to appear as a line item on a customer's bill and labeled to indicate that the amount will fund conservation programs.


IT IS FURTHER ORDERED that the Company shall calculate the Rider based upon a percentage of base revenue charge for all customers, as conditioned by the two caps.

IT IS FURTHER ORDERED that Schedule 19 and special contract customers may participate in self-directed DSM programs as set out in the body of this Order.

IT IS FURTHER ORDERED that the above referenced Energy Efficiency Tariff Rider, and the methodology, shall be effective as of June 1, 2005. The Company shall file a Tariff Schedule 91 in conformance with this Order prior to June 1, 2005.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code § 61-626.*


DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 13th day of May 2005.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


DENNIS S. HANSEN, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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